

The Philosophy Continues ...

ATARI

SC1224

ATARI

1040ST⁺

ATARI[®]
Corporate Profile

Financial Highlights

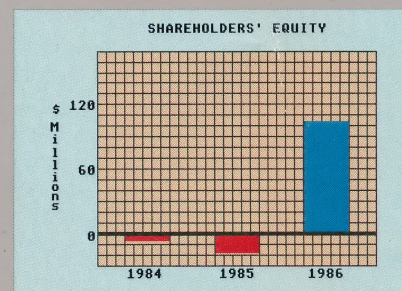
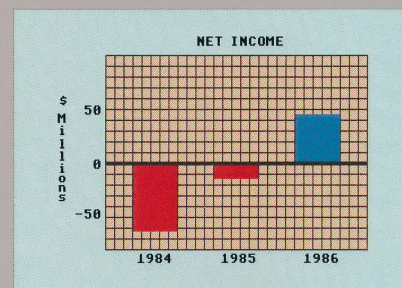
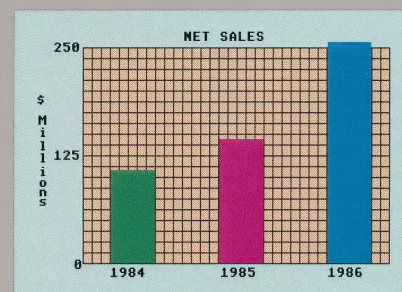
	Year Ended December 31 1986 <i>(in thousands)</i>	Year Ended December 31 1985	May 17, 1984 (Inception) to December 31 1984
<i>Statement of Operations:</i>			
Net sales	\$258,131	\$141,987	\$110,680
Income (loss) from operations	48,215	(25,819)	(61,455)
Net income (loss)	44,516	(14,314)	(62,758)
<i>Balance Sheet Data:</i>			
Working capital	96,484	11,749	13,820
Long-term debt	2,033	57,082	41,257
Shareholders equity (deficiency)	105,422	(19,477)	(6,899)

Profile

Atari Corporation is one of the largest manufacturers of personal computers and video game systems in the world. Through creative application of advanced technologies, the company consistently offers customers "Power Without the Price."

The company's products include the XE line of 8-bit personal computers, the ST line of advanced 16/32-bit computers, the 2600 and 7800 video game systems, peripherals and accessories, and a growing library of computer and video game software. These are sold in 50 countries around the world.

Atari is a multi-national company employing more than 1,400 people. Corporate headquarters including research, development and product design are located in Sunnyvale, California. Wholly-owned subsidiaries in Taiwan and Japan are responsible for worldwide manufacturing and production engineering, respectively. Wholly-owned sales subsidiaries are maintained in the Benelux, Canada, France, Italy, Spain, Sweden, Switzerland, the United Kingdom and West Germany.



To Our Shareholders:

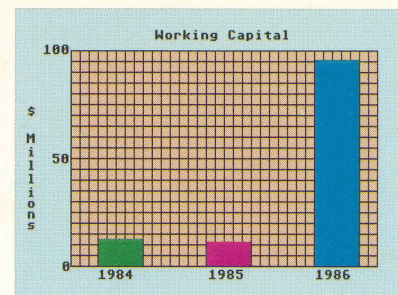
We are pleased that our first annual message as a public company bears good news on every front. 1986 was a milestone year for Atari. We put together a successful initial public offering, paid off our acquisition indebtedness to Warner Communications, Inc., achieved significant profitability, and introduced the ATARI 1040ST—which broke the memory barrier of \$1 per kilobyte.

Sales for 1986 were \$258,131,000, up 82 percent over \$141,987,000 in 1985. Net income was \$44,516,000 or \$1.89 per share, compared with a loss of \$14,314,000 or \$.62 per share in 1985.

A New Company

In July of 1984, we acquired certain assets and liabilities of Atari, Inc., a subsidiary of Warner Communications, Inc. Our challenge was to stop the losses and simultaneously prepare for the future. We began controlling costs by reducing overhead. At the same time, we brought with us a new 68000-based ST personal computer. In 1985, we introduced it as the ATARI 520ST and its innovative technology established the company as a prominent force in the dynamic personal computer market.

Consumer enthusiasm for the new ATARI ST computer line combined with the popularity of our video game series enabled us to pursue a successful public offering. Of the \$54.2 million raised from the offering,



\$36.2 million was used to repay acquisition indebtedness and working capital loans. The balance of approximately \$18 million was added to working capital, which at December 31, 1986 totalled approximately \$96.5 million.

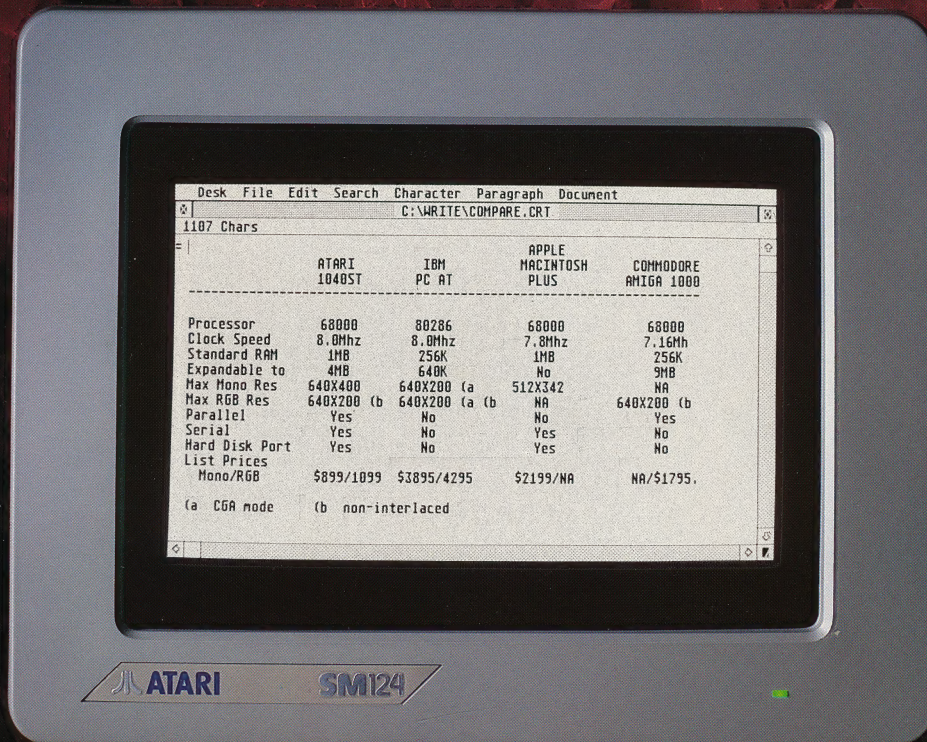
A Seasoned Management Team

The nucleus of Atari management has worked together in the computer and video game industries for more than a decade. Our horizontal management structure is purposefully simple, with few layers, enabling us to react quickly to market changes and opportunities. We're lean and aggressive and willing to take bold, yet thoughtful action based on our thorough understanding of technology and consumer electronics markets.

Power Without The Price

Atari is dedicated to making technologically advanced personal computers and video game systems that can be sold profitably for less than anyone else.

There's no mystery in this. We strive to keep costs down at every step in the process; and our prices reflect actual costs, plus a reasonable profit. We believe that our long-term success is dependent on providing consumers with superior value. We firmly believe in our slogan, "*Power Without the Price.*"



Investor's Daily
Paid Circulation: 74,000
S&P 500

Tiny Rise E Dow Peeks

By Leo Faccione, Investor's Daily
The stock market went through a
small rise yesterday, finally ending
in the final minutes to close up slightly
at a new high.

"It was a very nervous market," said
analyst Hildebrand Zepowski. "People
have been looking for a correction since
the run-up in January, and an order
event to get caught."

"Also, a few market gurus were short
the market, while the upcoming options
expiration inhibited buying."

**Groups With The Upmost
Of Stocks Making New Highs**

- Oilgas-int integrated 80%
- Oilgas-U.S. integrated 60%
- Oilgas-Oil integrated 50%
- Oilgas-foreign drilling 30%
- Chemicals-foreign 30%

Groups Up Most In Price

- Oilgas-foreign drilling +3.0%
- Oil field mach & equip +2.3%
- Oilgas-wat expnd/prod +2.3%
- Oilgas-int integrated +2.2%
- Foreign exch & int +1.7%

See Prices Of 187 Industry Groups (page 3)

The Dow Jones Industrial Average
after shooting ahead 36 points the prior
session, closed up 2.13 points, or 0.09%,
at a new high of 2286.93. The Investor's
Daily Stock Index rose 0.21 points, or
0.12%, to 187.78.

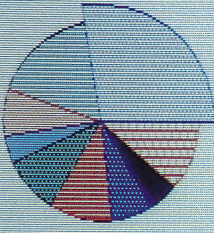
The Dow made history in the opening
hour when it pierced the 2,300 mark.
Selling came in, and it fell back to
again to 2,300 at midday, then
turned back by a sharp sell-off.

**Fleet
With**

(F1)Desk (F6)General (F7)Prices (F8)Buy/Sell (F9)Review (F10)Replay

by: CURRENT PRICE

DIVERSIFICATION of owned securities



Stock	%	Value	Pattern
1 ATC	28.0	388,125.00	
2 AXP	17.0	235,500.00	
3 CCI	7.6	105,250.00	
4 HAS	4.5	62,187.50	
5 HSN	9.1	126,250.00	
6 IBM	10.3	143,125.00	
7 IT	6.9	95,500.00	
8 TWA	5.0	70,000.00	
9 WCI	11.7	161,875.00	

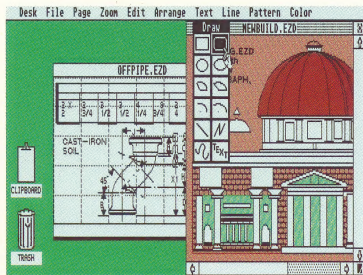
VARY X MORE HELP MENU

Portfolio Name: Trust
Total Value of Portfolio: 1,387,812.50
Number of Owned Securities: 9
Diversified Value: 154,201.39

Atari Corporation
You may select a stock name
to "explode" a segment.

ATARI SC1224





Beyond solving problems

in financial planning, word

processing, database

management and computer-

aided design, the powerful

ST series solves the most

important problem of all.

Affordability.

The 1040ST: A Computer Industry Milestone

One of the major achievements in the personal computer industry during 1986 was the successful introduction of the ATARI 1040ST personal computer, which joined the ATARI 520ST as part of our flagship product line. The ATARI ST line of computers received industry acclaim. FAMILY COMPUTING noted that "With the impressive ST, Atari has delivered on its promise of power without the price." BYTE MAGAZINE referred to the ST as "...an amazing bargain, much more of a computer for the rest of us than Mac ever was," and MICROTIMES wrote: "Faster and with better graphics capabilities than IBM/AT, it could be a great vehicle for low-cost networks, desktop publishing and visual database management software."

Video Games: A Sharp Rebound

In 1986, the video game industry experienced a strong resurgence. Riding the crest of this rebound, we retained our position as a leading manufacturer of video game systems. We introduced the ATARI 7800 PROSYSTEM in 1986. Both the ATARI 2600 and 7800 video game systems sold out in 1986. We offered exciting new software for both systems, expanding what already was the largest game library in the world.



**Atari enters the rapidly
expanding field of desktop
publishing with its most
advanced computers yet.
The new MEGA ST series
combines increased power
and superior resolution
with Atari's own high-
speed laser printer.**

Outlook For 1987

In the year ahead, we plan to concentrate heavily on improving sales in the United States. Our focus on broader distribution and market share will be supported by increased merchandising and advertising efforts. We also intend to introduce several new, exciting products utilizing the most recent technology.

The successes we have enjoyed, as well as those we are planning for, are the result of our firm belief in our basic principles:

- We offer the latest technology at an affordable price.
- We believe in a fair profit for ourselves, our suppliers and our dealers.
- We sell to and buy from the world—we take a global view of the market.
- We believe in maintaining a horizontal management style and a lean overhead.
- We sell to the masses not the classes.
- Business is war.

We are committed to these principles and we wish to thank our customers, shareholders, employees and enthusiastic user groups throughout the world for their continued support. The philosophy continues...

SAM TRAMIEL, President







For thousands of people,
Atari means entertainment
and the fast-paced excitement continues. With the introduction of the Atari ST's built-in MIDI interface, entertainment enters a new dimension: Computer-controlled music for learning, enjoyment, and professional sound studio applications.

Atari: Growth Through Innovation In Personal Computers And Video Games

Atari introduced breakthrough products, expanded its marketing organization and moved ahead with important research and development programs.

The Atari ST Line

The ATARI 1040ST personal computer, introduced in Spring 1986, was a major success. It is the first personal computer to offer a megabyte of memory for less than \$1,000. BYTE magazine called it, "...one of the great milestones in personal computing."

The ATARI ST line of personal computers, powered by the Motorola 68000 chip, simultaneously processes 32 bits of information internally and communicates over a 16-bit channel. The microprocessor of the ST line of computers operates at a speed of 8 million cycles per second (8 megahertz)—one of the fastest standard 16/32-bit configurations available today.

The ST's operating system is built into 192 kilobytes of read only memory (ROM), eliminating loading time and leaving the ST's random access memory (RAM) free for application software and data storage.

The power, ease of use and low cost of the ST is rapidly gaining the attention and favor of users. ATARI ST computers are now being used



2600



7800

in leading scientific centers throughout the world. Among these institutions are: NASA, the Naval Research Laboratory, Fermi Labs, Max Plank Gesellschaft and the Universities of Berlin, Dortmund and Stuttgart.

ST Software Library Grows

There are more than 1000 ST software programs such as word processing, database management, accounting, financial planning, telecommunications, music composition, graphics design, education and entertainment. The company actively encourages software development by major independent developers around the world.

Video Game Systems

1986 closed on a high note with brisk Christmas sales. Retailers around the world sold out of the 2600 VCS and 7800 PROSYSTEM video game consoles. The 7800 PROSYSTEM, introduced in the spring of 1986, features high-resolution arcade-quality graphics. It plays all 2600 VCS programs as well as games designed to take advantage of its advanced features.

Atari XE Computers

With the MEGA ST at the advanced level and the 65XE at the entry level, Atari offers consumers the widest spectrum of personal computers in

Our Atari 2600 is the world's most popular video game—over 25 million sold. The Atari 7800 ProSystem with superior game graphics and animation was a complete sell-out in 1986.

The Atari XE Game System is the ultimate video game for the serious game player. It comes complete with console, keyboard, joystick and gun. New for 1987.



THE
BASEBALL
ENCYCLOPEDIA

ROBIN
DATA

50 MISSION CRASH
LIVING WITH THE

EPYX
Fun with

S.A.C.A. #1 - Special Mission

Syntrend



74

AtariWriter Plus

EPYX PRESENTS **LUCASFILM GAMES**
The IDOLON

Music Painter
Shuttle Sound Disk Featuring Atari and Commodore
Versions of Music Painter

FROGGER SEGA

Silent Butler

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XE computers are Atari's competitively priced 8-bit series. They are perfect for beginning computer enthusiasts.

the industry. Sales of the 65XE and 130XE 8-bit computers continued strong in 1986. The 65XE is the ideal starter system, and the 130XE is a more powerful trade-up system. They sell for about half the price of comparable systems and are leading sellers internationally.

The Mega ST

The MEGA ST line, introduced at the 1987 Winter Consumer Electronics Show, is the most powerful ST yet. Sold in 1-, 2- and 4-megabyte configurations, this series features a small footprint, detached keyboard, battery-backed clock, expansion bus, and a graphics co-processor, which increases the speed of graphics generation.

The MEGA ST, combined with our new 300-dot per inch laser printer, which costs about half the price of comparable units, takes ATARI into the desktop publishing business.

The Atari PC

While the ATARI ST is Atari's flagship line, the company introduced an IBM PC compatible in early 1987 to offer that market "power without the price." The ATARI PC is the first PC compatible clone to offer enhanced graphics (EGA) as a standard feature.

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